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FM AMEMBASSY ASTANA  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4236  
INFO RUCNCIS/CIS COLLECTIVE 0987  
RUEHZL/EUROPEAN POLITICAL COLLECTIVE  
RUCNCLS/SOUTH AND CENTRAL ASIA COLLECTIVE  
RUEHBJ/AMEMBASSY BEIJING 0387  
RUEHKO/AMEMBASSY TOKYO 1093  
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RUEATRS/DEPT OF TREASURY WASHDC  
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E.O. 12958: N/A

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SUBJECT: KAZAKHSTAN: CUSTOMS UNION WITH RUSSIA AND BELARUS  
THREATENS WTO ACCESSION BID

REF: ASTANA 2445

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: Kazakhstan's WTO negotiator told the Ambassador on December 24 Kazakhstan is ready to accelerate WTO accession negotiations with the United States. However, the international financial crisis is making some Kazakhstani officials more hesitant about the theoretical benefits of globalization. Instead, they see immediate and tangible benefits from a possible near-term customs union with Russia and Belarus. Aitzhanova acknowledged joining the customs union could dramatically slow - or derail - Kazakhstan's WTO accession. We know Russia has long opposed Kazakhstan's WTO membership before its own accession. The new customs union, if Kazakhstan follows through, as it currently seems likely to do, would be a convenient way for Moscow to limit Astana's sovereignty. To sell a WTO agreement to the president and prime minister, Aitzhanova said she will need concessions from the United States, especially on banking and financial services. She expressed exasperation that USTR has not yet provided working-party report comments from the June meeting in Switzerland. She added she also needs a full agricultural package and a description of services.  
END SUMMARY

¶3. (SBU) During a two-hour working lunch on December 24, the Ambassador told Vice Minister of Industry and Trade and WTO negotiator Zhanar Aitzhanova he had heard in September USTR is ready to accelerate work on Kazakhstan's WTO accession and then heard in early December from Kazakhstan's Ambassador to the United States Erlan Idrisov that Kazakhstan is eager to move forward on WTO. He passed Aitzhanova an edited version of the talking points USTR had provided for this meeting.

¶4. (SBU) Aitzhanova responded that there is indeed political will on both sides to move ahead, but, as a negotiator, she knows that political will doesn't always translate into action. Because of the world financial crisis, "the terms are more important to us than the speed - what matters is the substance of the deal." She said Prime Minister Masimov and President Nazarbayev continue to insist on the best deal possible with clear evidence of concrete benefits for Kazakhstan. Without adequate concessions from the U.S. side, she

said, she will not be able to sell them the deal. Further, the financial crisis is increasing political opinion in Kazakhstan to avoid more international economic integration. "Not everyone is convinced we should go global," she said, noting that Kazakhstan's banking sector is dangerously exposed to the international financial crisis because of large-scale foreign borrowing.

WILL CUSTOMS UNION WITH RUSSIA TRUMP WTO?

15. (SBU) The Ambassador cited press reports that Kazakhstan is preparing documents for April 1 to become a member of a Russia-Belarus-Kazakhstan customs union, and asked if this could derail Kazakhstan's WTO negotiations. At first, Aitzhanova cautioned the United States not to see this as a threat but as a political signal that the concept of enhanced regional economic integration for protection against international economic shocks might supersede calls for increased global collaboration. Eventually, she acknowledged that formation of the customs union would have a real impact on Kazakhstan's WTO bid and would force renegotiation on multiple levels. She remarked that the customs union presents tangible and immediately recognizable benefits that appeal to decision makers, whereas WTO accession's benefits are future and potential.

16. (SBU) Aitzhanova suggested that if U.S. WTO negotiators offered no further concessions by April 1, 2009 - the date that a common tariff agreement is due for the proposed customs union - it might be hard to argue for WTO accession's precedence over the formation of the customs union. "I am constantly asked by our leadership why U.S. political support for our WTO accession is not translating into actual progress. When I show them the costs of the agreements, they say 'no.' To them, the benefits of the customs union are clear,

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while the benefits of WTO membership remain theoretical."

"THE BALL IS IN YOUR COURT, NOT OURS"

17. (SBU) Aitzhanova refuted USTR's view that "the ball is in Kazakhstan's court," and said she is still waiting for USTR's comments on the working-party report from their last meeting in June in Switzerland. "The sooner we get it, the sooner we can start," she added. She lamented that the United States is slower in its responses than her other negotiating partners like Australia, the European Union, and Saudi Arabia. She said she is eager to accelerate WTO negotiations with the United States, but will be unavailable the first three weeks of January because she will be in New Delhi finishing bilateral work in preparation for President Nazarbayev's official visit to India at the beginning of the third week of January.

18. (SBU) When asked what the United States can do concretely to prepare for renewed negotiations, she said Kazakhstan needs the working-party report comments from June, a full agricultural package, and a description of services to be negotiated. Most important, regarding the banking and financial services sector, "Kazakhstan does not want anything that will further jeopardize us at home - flexibility on your part is essential. This is our political reality."

19. (SBU) COMMENT: In early December, Kazakhstan's ambassador in Washington, Erlan Idrisov, told the Ambassador some in Kazakhstan fear Russia is trying to lock CIS countries into the customs union to control their WTO accession (reftel). We know Russia has long opposed Kazakhstan's WTO membership before its own accession. The new customs union, if Kazakhstan follows through, as it currently seems likely to do, would be a convenient way for Moscow to take advantage of the international economic crisis to limit Astana's sovereignty. END COMMENT.

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